TAB 32

Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 157

Fair Value Measurements

Statement of Financial Accounting Standards No. 157
Fair Value Measurements

STATUS

Issued: September 2006

Effective Date: For financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years

Affects: Amends APB 21, paragraphs 13 and 18
Deletes APB 21, footnote 1
Amends APB 28, paragraph 30
Amends APB 29, paragraphs 18 and 20(a)
Deletes APB 29, paragraph 25 and footnote 5
Amends FAS 13, paragraph 5(c)
Amends FAS 15, paragraphs 13 and 28
Deletes FAS 15, footnotes 2, 5a, and 6
Amends FAS 19, paragraph 47(l)(i)
Amends FAS 35, paragraph 11 and footnote 5
Deletes FAS 35, footnote 4a
Amends FAS 60, paragraph 19
Deletes FAS 60, footnote 4a
Amends FAS 63, paragraphs 4, 8, and 38 through 40
Amends FAS 65, paragraphs 4, 6, 9, 10, 12, and 29
Amends FAS 67, paragraphs 8 and 28
Deletes FAS 67, footnote 6
Amends FAS 87, paragraphs 49 and 264 and footnote 12
Deletes FAS 87, footnote 11a
Amends FAS 106, paragraphs 65 and 518 and footnote 21
Deletes FAS 106, footnote 20a
Deletes FAS 107, paragraphs 5, 6, 11, and 18 through 29
Amends FAS 107, paragraphs 9, 10, 30, and 31
Amends FAS 115, paragraphs 3(a) and 137
Replaces FAS 115, footnote 2
Amends FAS 116, paragraphs 19, 20, 184, 186, and 208
Deletes FAS 116, footnote 8
Amends FAS 124, paragraphs 3(a) and 112
Replaces FAS 124, footnote 3
Deletes FAS 133, paragraph 16A and footnote 6c
Amends FAS 133, paragraphs 17 and 540
Effectively deletes FAS 133, footnotes 9b, 10b, 18a, 18b, 20a through 20e, and 24a
Amends FAS 136, Summary and paragraphs 15 and 36
Amends FAS 140, paragraphs 11(c), 17(h), 17(i), 63(b), and 364
Deletes FAS 140, paragraphs 68 through 70 and footnotes 20 and 21
Amends FAS 141, paragraph F1
Amends FAS 142, paragraphs 3, 19, 23, and F1
Deletes FAS 142, paragraphs 24, E1, and E2 and footnotes 12 and 16
Deletes FAS 143, paragraphs 6, 7, 9, A19, and F1 through F4 and footnotes 5 through 8, 17, and 19
Amends FAS 143, paragraphs 8, A20, A21, A26, C1, C3(d), C4, C6 through C9, C11, and C12 and footnotes 12 and 18

Deletes FAS 144, paragraphs 22, 24, A12, and E1 through E3 and footnotes 12 through 14, 28, and 29
Amends FAS 144, paragraphs 23, A6 through A8, A11, A13, and A14
Deletes FAS 146, paragraphs 5, A4, and A5 and footnotes 13 through 16
Amends FAS 146, paragraph A2
Amends FAS 150, paragraph D1
Deletes FAS 156, paragraph 3(c)
Amends FIN 45, paragraphs 9(a) and 9(b)

Affected by: No other pronouncements

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: Modifies EITF Issue No. 02-3

Interpreted by: No EITF Issues

Related Issues: No EITF Issues

SUMMARY

This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice.

Reason for Issuing This Statement

Prior to this Statement, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. Moreover, that guidance was dispersed among the many accounting pronouncements that require fair value measurements. Differences in that guidance created inconsistencies that added to the complexity in applying GAAP. In developing this Statement, the Board considered the need for increased consistency and comparability in fair value measurements and for expanded disclosures about fair value measurements.

Differences between This Statement and Current Practice

The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements.

The definition of fair value retains the exchange price notion in earlier definitions of fair value. This Statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price).

This Statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, this Statement establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The notion of

techniques will be appropriate (for example, as might be the case when valuing a reporting unit). If multiple valuation techniques are used to measure fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

20. Valuation techniques used to measure fair value shall be consistently applied. However, a change in a valuation technique or its application (for example, a change in its weighting when multiple valuation techniques are used) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, new markets develop, new information becomes available, information previously used is no longer available, or valuation techniques improve. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate (FASB Statement No. 154, *Accounting Changes and Error Corrections,* paragraph 19). The disclosure provisions of Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

Inputs to Valuation Techniques

21. In this Statement, *inputs* refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

a. *Observable inputs* are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.
b. *Unobservable inputs* are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value Hierarchy

22. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

23. The availability of inputs relevant to the asset or liability and the relative reliability of the inputs might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques, not the valuation techniques. For example, a fair value measurement using a present value technique might fall within Level 2 or Level 3, depending on the inputs that are significant to the measurement in its entirety and the level in the fair value hierarchy within which those inputs fall.

Level 1 inputs

24. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available, except as discussed in paragraphs 25 and 26.

25. If the reporting entity holds a large number of similar assets or liabilities (for example, debt securities) that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets or liabilities individually. In that case, fair value may be measured using an alternative pricing method that

does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower level measurement.

26. In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the measurement date. The reporting entity should establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower level measurement.

27. If the reporting entity holds a position in a single financial instrument (including a block) and the instrument is traded in an active market, the fair value of the position shall be measured within Level 1 as the product of the quoted price for the individual instrument times the quantity held. The quoted price shall not be adjusted because of the size of the position relative to trading volume (blockage factor). The use of a blockage factor is prohibited, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.[11]

Level 2 inputs

28. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets
b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market)
c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)
d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

29. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the condition and/or location of the asset or liability, the extent to which the inputs relate to items that are comparable to the asset or liability, and the volume and level of activity in the markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

Level 3 inputs

30. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data. In developing unobservable inputs, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted

[11]The guidance in this Statement applies for positions in financial instruments (including blocks) held by all entities, including broker-dealers and investment companies within the scope of the AICPA Audit and Accounting Guides for those industries.

if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

Inputs based on bid and ask prices

31. If an input used to measure fair value is based on bid and ask prices (for example, in a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where in the fair value hierarchy the input falls (Level 1, 2, or 3). This Statement does not preclude the use of mid-market pricing or other pricing conventions as a practical expedient for fair value measurements within a bid-ask spread.

Disclosures

32. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:

a. The fair value measurements at the reporting date
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)
c. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:[12]
   (1) Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities)
   (2) Purchases, sales, issuances, and settlements (net)
   (3) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)
d. The amount of the total gains or losses for the period in subparagraph (c)(1) above included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities)
e. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, during the period.

33. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:

a. The fair value measurements recorded during the period and the reasons for the measurements
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)
c. For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs
d. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) used to measure similar assets and/or liabilities in prior periods.

[12]For derivative assets and liabilities, the reconciliation disclosure required by paragraph 32(c) may be presented net.

~~helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows[20a] may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.~~[21] (Refer to paragraph 71.)

~~[20a]This pronouncement was issued prior to FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, and therefore the term *expected cash flows* does not necessarily have the same meaning as that term in Concepts Statement 7.~~

[21]~~For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables*. If significant, t~~The fair value of an investment shall be reduced by ~~reflect the~~ brokerage commissions and other costs normally incurred in a sale if those costs are significant (similar to fair value less cost to sell).

b. Paragraph 518 (glossary):

~~**Fair value**~~

~~The amount that a plan could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale.~~

E14. FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, is amended as follows:

a. Paragraph 5:

~~For purposes of this Statement, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value to be disclosed for that instrument is the product of the number of trading units of the instrument times that market price.~~

b. Paragraph 6:

~~Under the definition of fair value in paragraph 5, the quoted price for a single trading unit in the most active market is the basis for determining market price and reporting fair value. This is the case even if placing orders to sell all of an entity's holdings of an asset or to buy back all of a liability might affect the price, or if a market's normal volume for one day might not be sufficient to absorb the quantity held or owed by an entity.~~

c. Paragraph 9:

Generally accepted accounting principles already require disclosure of or subsequent measurement at fair value for many classes of financial instruments. ~~Although the definitions or the methods of estimation of fair value vary to some extent, and various terms such as market value, current value, or mark-to-market are used, the amounts computed under those requirements satisfy the requirements of this Statement and t~~Those requirements are not superseded or modified by this Statement.

d. Paragraph 10, as amended:

An entity shall disclose, either in the body of the financial statements or in the accompanying notes,[3a] the fair value of financial instruments for which it is practicable to estimate that value. Fair value disclosed in the notes shall be presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position. An entity also shall disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments.[3aa]

[3a]If disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Statement, as amended.

[3aa]For financial instruments recognized at fair value in the statement of financial position, the disclosure requirements of FASB Statement No. 157, *Fair Value Measurements*, also apply.

e. Paragraph 11:

~~Quoted market prices, if available, are the best evidence of the fair value of financial instruments. If quoted market prices are not available, management's best estimate of fair value may be based on the quoted market price of a financial instrument with similar characteristics or on valuation techniques (for example, the present value of estimated future cash flows using a discount rate commensurate with the risks involved, option pricing models, or matrix pricing models). Appendix A of this Statement contains examples of procedures for estimating fair value.~~

f. Paragraphs 18–29 (Appendix A) are deleted. This appendix provided examples of procedures for estimating the fair value of financial instruments.

g. Paragraph 30:

> The examples that follow are guides to implementation of the disclosure requirements of this Statement. Entities are not required to display the information contained herein in the specific manner illustrated. Alternative ways of disclosing the information are permissible as long as they satisfy the disclosure requirements of this Statement. ~~Paragraphs 12 and 21 of this Statement describe possible additional voluntary disclosures that may be appropriate in certain circumstances.~~In some cases, an entity's management may decide to provide further information about the fair value of a financial instrument. For example, an entity may want to explain that although the fair value of its long-term debt is less than the carrying amount, settlement at the reported fair value may not be possible or may not be a prudent management decision for other reasons, or the entity may want to state that potential taxes and other expenses that would be incurred in an actual sale or settlement are not taken into consideration.

h. Paragraph 31, section titled "Commitments to extend credit, standby letters of credit, and financial guarantees written" of Note V:

> ~~*Commitments to extend credit, standby letters of credit, and financial guarantees written*~~
>
> ~~The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.~~

E15. FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, is amended as follows:

a. Paragraph 3(a) and its related footnote 2:

> The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by ~~the National Quotation Bureau~~Pink Sheets LLC. Restricted stock[2] ~~does not meet that definition~~meets that definition if the restriction terminates within one year.

[2]The fair value of restricted stock shall be measured based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction, in accordance with the provisions of FASB Statement No. 157, *Fair Value Measurements.*~~Restricted stock, for the purpose of this Statement, means equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral) except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year. Any portion of the security that can be reasonably expected to qualify for sale within one year, such as may be the case under Rule 144 or similar rules of the SEC, is not considered restricted.~~

b. Paragraph 137 (glossary), as amended:

> ~~**Fair value**~~
>
> ~~The amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and should be used as the basis for the measurement, if available. If a quoted market price is available, the fair value is the product of the number of trading units times that market price. If a quoted market price is not available, the estimate of fair value should be based on the best information available in the circumstances. The estimate of fair value should consider prices for similar assets and the results of valuation techniques to the extent available in the circumstances. Examples of valuation techniques include the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis. Valuation techniques for measuring assets should be consistent with the objective of measuring fair value. Those~~